

TO THE SHAREHOLDERS
SOUTHAM PRESS LIMITED

Results for the second quarter were generally favourable and reflect some strengthening in consumer purchases caused by reductions in retail sales taxes.

Net income at 79 cents per share before extraordinary items is 22.7 per cent ahead of 1977. The extraordinary item arose from the sale of surplus real estate in Montreal.

Demand for our newspaper products remained firm. In June a strike at the Montreal Star led to a substantial increase in both circulation and advertising lineage at The Gazette. The consolidated contribution from our newspaper operations continues to increase.

The move to new commercial printing facilities in Montreal is now complete. Printing revenues are healthy overall. This subsidiary's profit margins continue to improve. Revenues from business publications and trade shows also exceed those of the previous year and profit margins, which increased during the first quarter, are holding at these higher levels.

Equity in the net income of associated companies has improved, partly because Selkirk Holdings Limited, one of our principal associates, has itself changed to the equity basis of accounting.

During the quarter a favourable decision was reached in the courts on a tax case that resulted in the reversal of \$2,600,000 of taxes previously accrued for the years 1973-1977. At year end adjustments will be made to the prior years' earnings. For 1978 there will be some downward adjustment in overall tax rates.

On 19 July, 1978, Southam Press made an offer to the shareholders of Coles Book Stores Limited for all the shares in that company at a price of \$23 per share. The controlling group has recommended acceptance of the offer and will tender its shares. If all shares are tendered, the cost to Southam Press will be approximately \$34,000,000 and it is expected the acquisition, if completed, will improve Southam earnings by approximately 10 cents per share in 1979. The offer will remain open until 31 August, 1978 and financing has been arranged through the company's bankers.

The regular quarterly dividend of 23 cents per Class A and B share has been declared payable 29 September to shareholders of record 15 September. In addition an extra dividend has been declared in the amount of 25 cents per share also payable 29 September and this will be tax deferred in the hands of A and B shareholders.

Interim Consolidated Statement of
Changes in Financial Position (not audited)
(Thousands of dollars)

6 Months ended June 30

	1978	1977
SOURCE OF FUNDS		
Funds derived from		
operations	\$20,517	\$15,901
Investments realized	368	16
Long term borrowing . . .	1,822	—
	<u>22,707</u>	<u>15,917</u>
USE OF FUNDS		
Dividends paid	5,758	5,209
Tax paid on 1971		
undistributed income . .	—	66
Additions to fixed		
assets, net	6,978	3,973
Investments acquired . . .	612	75
Long term debt repaid		
or currently payable . . .	3,878	498
Acquisition of subsidiaries	35	—
Other minor items	(8)	94
	<u>17,253</u>	<u>9,915</u>
Increase in working		
capital	<u>\$ 5,454</u>	<u>\$ 6,002</u>

SOUTHAM PRESS LIMITED

Interim
report

6

months
ended
June 30, 1978



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FILE

Gordon Fiske

Chairman of the Board
TORONTO, CANADA, JULY 21, 1978

President

Interim Consolidated Statement of Income (not audited)

(Thousands of dollars except per share amounts)

	3 months ended June 30			6 months ended June 30		
	1978	Percentage Change	1977	1978	Percentage Change	1977
Revenue from operations:						
Newspapers	\$ 60,241		\$ 54,130	\$112,415		\$101,272
Printing	23,649		20,709	44,221		37,581
Business publications and shows	8,112		7,551	15,073		14,304
	<u>92,002</u>	+ 11.7	<u>82,390</u>	<u>171,709</u>	+ 12.1	<u>153,157</u>
Cost of operations:						
Operating expenses	75,906		68,762	145,171		129,942
Depreciation	2,334		1,922	4,653		3,831
Amortization of goodwill	105		105	207		209
Interest (net)	278		267	497		531
	<u>78,623</u>	+ 10.6	<u>71,056</u>	<u>150,528</u>	+ 11.9	<u>134,513</u>
Operating income before income taxes	13,379	+ 18.0	11,334	21,181	+ 13.6	18,644
Income taxes (estimated)	5,819	+ 14.2	5,097	9,288	+ 10.3	8,417
Operating income after income taxes	7,560	+ 21.2	6,237	11,893	+ 16.3	10,227
Equity in net income of associated companies	2,311		1,804	3,046		2,773
Dividends received	9		9	18		18
Net income before extraordinary items	9,880	+ 22.7	8,050	14,957	+ 14.9	13,018
Extraordinary items	281		—	1,295		—
Net income	<u>\$ 10,161</u>	+ 26.2	<u>\$ 8,050</u>	<u>\$ 16,252</u>	+ 24.8	<u>\$ 13,018</u>
Net income—per share before extraordinary items . .	\$.79		\$.65	\$ 1.20		\$ 1.05
Net income—per share	\$.82		\$.65	\$ 1.31		\$ 1.05
Dividends paid—per Class A share	23¢		21.5¢	46¢		43¢
Dividends paid—per Class B share	23¢		18.275¢	46¢		36.55¢